

FISCAL NOTE

Bill #: HB0426

Title: Revise definition of compensation for police retirement

Primary Sponsor: Grinde, W

Status: As Introduced - Revised

Sponsor signature

Date

David Ewer, Budget Director

Date

Fiscal Summary

	<u>FY 2006 Difference</u>	<u>FY 2007 Difference</u>
Expenditures:		
General Fund	\$799,022	\$841,450
Revenue:		
Other (Retirement Pension Trust)	\$1,435,900	\$1,512,146
Net Impact on General Fund Balance:	(\$799,022)	(\$841,450)

<input checked="" type="checkbox"/> Significant Local Gov. Impact	<input checked="" type="checkbox"/> Technical Concerns
<input type="checkbox"/> Included in the Executive Budget	<input checked="" type="checkbox"/> Significant Long-Term Impacts
<input type="checkbox"/> Dedicated Revenue Form Attached	<input type="checkbox"/> Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

1. Assume this is the only benefit provision being considered. If other provisions are enacted, the cost associated with this provision may be different.
2. This fiscal note is based on the findings in the 2004 actuarial valuation and the funded position of the Municipal Police Officers' Retirement System (MPORS) as of June 30, 2004.
3. Assume all current and future active members will be eligible for the amended provisions.
4. Assume all liabilities for future benefits are ratable impacted by an increase in the average level of compensation.
5. Assume all additional pay is earned uniformly throughout each member's career.
6. Based on the assumptions, the amortization period and the 30-year funding rate of required contributions will change very slightly. However, the current contributions will be applied to a higher payroll base. An increase in the normal cost will generate sufficient funding for new hires and partial funding for current members. The increased amortization payment will be sufficient to amortize the increased Unfunded Actuarial Liability.
7. We do not have data on the expected increase in compensation due to the addition of overtime, holiday pay and shift differentials. The estimated fiscal impact is the change in compensation multiplied by the

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contribution rates. If salaries increase by 5 percent, the actuarial liability will increase \$5,037,000. If salaries increase by 10 percent, the actuarial liability will increase \$10,074,000.

8. Currently, the average annual salary in MPORS increases by 5.31 percent, based on the experience of the last five years. FY 2004 annual covered payroll totaled \$24,531,018. At the current rate, FY 2006 would total \$27,205,380 and FY 2007 would total \$28,649,986.
 - a. FY 2006 covered payroll - $\$24,531,018 \times 1.0531 \times 1.0531 = \$27,205,380$
 - b. FY 2007 covered payroll - $\$27,205,380 \times 1.0531 = \$28,649,986$
9. For purposes of this fiscal note, we used an assumption of an additional 10 percent increase in compensation due to the addition of overtime, holiday pay and shift differential. Therefore, FY 2006 compensation will total \$29,925,918 (an increase of \$2,720,538) and FY 2007 compensation will total \$31,514,984 (an increase of \$2,864,999).
 - a. FY 2006 additional compensation - $\$27,205,380 \times .10 = \$2,720,538$
 - b. FY 2007 additional compensation - $\$28,649,986 \times .10 = \$2,864,999$
10. The general fund contributes 29.37 percent of compensation to the MPORS. Local governments contribute 14.41 percent of compensation. The additional contributions are shown in the table below.

Payer of retirement costs	Rate	FY 2006	FY 2007
General Fund	29.37%	\$799,022	\$841,450
Local Governments	14.41%	392,030	412,846
Employee Contributions	9.0%	244,848	257,850
Total Additional Contribution		\$1,435,900	\$1,512,146
Additional Compensation		\$2,720,538	\$2,864,999

11. The state general fund contribution to the MPORS is a statutory appropriation.

FISCAL IMPACT:

	<u>FY 2006 Difference</u>	<u>FY 2007 Difference</u>
<u>Expenditures:</u>		
Transfers	799,022	841,450
<u>Funding of Expenditures:</u>		
General Fund (01)	799,022	841,450
<u>Revenues:</u>		
Other (Municipal Police Officers' Retirement System)	1,435,900	1,512,146
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>		
General Fund (01)	(799,022)	(841,450)
Other (Municipal Police Officers' Retirement System)	1,435,900	1,512,146

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EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

The cities covered under MPORS are the first and second-class cities and any city that elects to join the system. All cities covered under the plan will have increased employer and employee contributions applied to a higher payroll base. The employer contribution rate is 14.41 percent. Employee contributions are 5.80 percent of compensation for members hired prior to June 30, 1975; 7.00 percent of compensation for members hired after June 30, 1975 and prior to July 1, 1979; 8.50 percent of compensation for members hired after June 30, 1979 and prior to July 1, 1997; and 9.00 percent if hired on or after July 1, 1997 or for members electing GABA. We have used a rate of 9.00 percent for this fiscal note. The increase in employee and employer contributions follows:

Local Impact - Increase in Employer and Employee Contributions		
	FY 2006 Difference	FY 2007 Difference
Employer Contributions	\$392,030	\$412,846
Employee Contributions	\$244,848	\$257,850

LONG-RANGE IMPACTS:

Including overtime, holiday pay and shift differentials in total compensation significantly increases total compensation reported to MPORS and increases benefits provided in MPORS.

TECHNICAL NOTES:

It is assumed all additional pay is earned is earned uniformly over the members career. If overtime pay, for example, is skewed toward the final averaging period in members' careers, sufficient revenue may not be generated to finance the higher benefits.